CAFTA Facts

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Textiles in CAFTA

Details of the Agreement

Yarn-forward Rule of Origin: Parties agreed to a "yarn forward" rule, meaning that only apparel using U.S. fabric or yarn qualifies for duty-free benefits. This rule will apply to no less than 90% of Central American apparel exports to the United States. Because deviations from the yarn forward rule amount to less than 10% of current trade, the CAFTA is the tightest textile trade agreement ever negotiated.

Duty free immediately: Parties will provide reciprocal duty free access for all goods and will make CAFTA tariff benefits retroactive to January 1, 2004. Retroactive duty free treatment will benefit every company doing business in the region, including U.S. yarn spinners and fabric makers. The retroactive duty free provision will help the U.S. and our CAFTA partners maintain and possibly expand production as retailers decide how to distribute orders after the removal of quotas in 2005.

Cumulation: Parties agree to "cumulation" with Mexico and Canada for woven apparel, allowing a limited amount of inputs from Mexico and Canada to be used in Central American/Dominican apparel that will still qualify for duty-free benefits in the U.S. Cumulation is subject to a 100 million square meter annual cap. This cap can grow to 200 million square meters. However, this increase is tied to growth in CAFTA trade. Under the overall cap of 100 million sme, there is a 1-million sme cap on wool, 20-million sme cap on blue denim, and 45-million sme cap on cotton and man-made bottom-weights. Mexico and Canada must provide reciprocal benefits to U.S. and Central American textile and apparel exports. Canada and Mexico must also agree to strengthened Customs enforcement measures. This cumulation provision, in lieu of the TPLs in former free trade agreements that allowed for large quantities of Asian fabric imports, benefits American companies with investments in Mexico and Canada and helps to integrate production in the region as a counterbalance to Asian producers.

No TPLs for the Major Suppliers of Central America: The CAFTA does not contain TPLs for El Salvador, Costa Rica, Honduras, and Guatemala. These countries account for 94% of Central America's apparel exports. This is the first time the U.S. has ever concluded a free trade agreement with any country without TPLs. CAFTA provides Nicaragua with a TPL of 100 million square meters, but this TPL amounts to less than 4% of trade <u>and</u> it phases out over 10 years.

Tough Customs Enforcement Procedures: The CAFTA contains Customs enforcement provisions that are stricter than the NAFTA. Among the provisions, U.S. Customs authorities can conduct surprise site visits to Central American producers and the United States can undertake a variety of enforcement actions (up to and including a bar of entry of suspect goods).

Textile-specific Safeguard: CAFTA contains a special textile safeguard, allowing the U.S. to impose tariffs on certain goods when injury occurs due to import surges. This is the only product-specific safeguard in the CAFTA.

New Benefits for Thread and Elastics: For the first time in a free trade agreement, CAFTA requires thread and narrow elastic fabrics to originate. As in past agreements, there is a provision to ensure visible linings originate.

Flexibilities: Instead of resorting to large TPLs, CAFTA contains several narrowly-tailored provisions to address specific concerns of Central America. These flexibilities amount to less than 10% of trade, a smaller percentage than any past free trade agreement.

Short Supply Process: The CAFTA contains a new short supply process that includes tighter timelines than in earlier short supply processes, allows items to be deemed in partial short supply, and provides for items to be added to and removed from short supply list.